AMERICAN VANADIUM CORP.

CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (UNAUDITED)

AS AT AND FOR THE SIX MONTHS ENDED JUNE 30, 2014

Management's Comments on Unaudited Financial Statements

The accompanying unaudited condensed consolidated interim financial statements of American Vanadium Corp. (the "Company") as at and for the six months ended June 30, 2014 have been prepared by management and approved by the Board of Directors of the Company. These financial statements have not been reviewed by the Company's external auditors.

AMERICAN VANADIUM CORP.
CONDENSED CONSOLIDATED INTERIM BALANCE SHEETS (UNAUDITED)
IN CANADIAN DOLLARS

	June 30	December 31
	2014	2013
	$	$
ASSETS		
Current assets		
Cash	**1,629,221**	1,460,897
Amounts receivable	**47,314**	49,479
Prepaid expenses (Notes 4,7)	**556,562**	123,101
Total current assets	**2,233,097**	1,633,477
Equipment and deposits on equipment (Note 5)	**328,732**	142,580
Reclamation deposit	**163,915**	148,393
Mineral properties (Note 6)	**1,983,131**	1,917,284
Total assets	**4,708,876**	3,841,734
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities		
Accounts payable and accrued liabilities (Note 8)	**621,523**	1,490,661
Total liabilities	**621,523**	1,490,661
Shareholders' equity		
Share capital (Note 7)	**29,036,056**	24,097,538
Equity reserves	**3,816,916**	3,493,384
Deficit	**(28,765,620)**	(25,239,849)
Total shareholders’ equity	**4,087,352**	2,351,073
Total liabilities and shareholders’ equity	**4,708,875**	3,841,734

Basis of presentation and continuance of operations (Note 2)

Commitments and contingencies (Note 13)

On behalf of the Board:

Signed: “William Radvak” Director

Signed: “Brian E. Bayley” Director

The accompanying notes are an integral part of these condensed consolidated interim financial statements.

AMERICAN VANADIUM CORP.
CONDENSED CONSOLIDATED INTERIM STATEMENTS OF COMPREHENSIVE LOSS (UNAUDITED)
IN CANADIAN DOLLARS

	Three Months Ended June 30		Six Months Ended June 30	
	2014	2013	**2014**	2013
	$	$	**$**	$
Exploration and evaluation expenses (Note 6)	**(582,539)**	(952,926)	**(1,417,403)**	(1,873,735)
General and administrative expenses:				
Salaries and benefits (Notes 7,8)	**581,125**	190,394	**953,450**	385,132
Consulting (Note 8)	**219,202**	135,607	**447,432**	246,759
Stock-based compensation (Note 7)	**112,375**	3,672	**169,977**	17,767
Travel	**86,310**	60,571	**128,646**	92,436
Investor relations and shareholder information	**64,116**	34,348	**77,462**	76,635
Office facilities and administrative services (Note 8)	**51,931**	51,931	**102,361**	94,783
Transfer agent, listing and filing fees	**11,776**	10,495	**39,614**	35,604
Office and sundry	**31,477**	24,099	**62,210**	52,980
Audit and legal	**22,414**	36,344	**33,461**	70,542
Amortization	**8,587**	7,724	**17,238**	14,805
Total general and administrative expenses	**(1,189,313)**	(555,185)	**(2,031,851)**	(1,087,443)
Foreign exchange (loss) gain	**(21,456)**	(4,504)	**(82,128)**	20,401
Interest income	**3,389**	534	**5,611**	1,151
Net comprehensive loss	**(1,789,919)**	(1,512,081)	**(3,525,771)**	(2,936,626)
Basic and diluted loss per share (Note 12)	**(0.03)**	(0.04)	**(0.06)**	(0.09)

AMERICAN VANADIUM CORP.
CONDENSED CONSOLIDATED INTERIM STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY (UNAUDITED)
IN CANADIAN DOLLARS

	Share Capital	Equity Reserves	Deficit	Total
	$	$	$	$
Balance, December 31, 2012	17,461,187	2,876,809	(16,960,304)	3,377,692
Private placements, net of share issuance costs	915,667	193,015	-	1,108,682
Exercise of stock options	56,151	(18,875)	-	37,276
Stock-based compensation	-	17,767	-	17,767
Net comprehensive loss for the period	-	-	(2,939,626)	(2,939,626)
Balance, June 30, 2013	18,433,005	3,068,716	(19,899,930)	1,601,791
Private placements, net of share issuance costs	5,531,533	88,033	-	5,619,566
Performance and bonus shares	133,000	-	-	133,000
Stock-based compensation	-	336,635	-	336,635
Net comprehensive loss for the year	-	-	(5,339,919)	(5,339,919)
Balance, December 31, 2013	24,097,538	3,493,384	(25,239,849)	2,351,073
Private placements, net of share issuance costs	4,822,169	12,043	-	4,834,212
Performance and bonus shares	106,675	142,906	-	249,581
Exercise of warrants	9,674	(1,394)	-	8,280
Stock-based compensation	-	169,977	-	169,977
Net comprehensive loss for the period	-	-	(3,525,771)	(3,525,771)
Balance, June 30, 2014	**29,036,056**	**3,816,916**	**(28,765,620)**	**4,639,566**

The accompanying notes are an integral part of these condensed consolidated interim financial statements.

AMERICAN VANADIUM CORP.
CONDENSED CONSOLIDATED INTERIM STATEMENTS OF CASH FLOWS (UNAUDITED)
IN CANADIAN DOLLARS

	Six Months Ended June 30 2014	Six Months Ended June 30 2013
	$	$
CASH FLOWS (USED IN) PROVIDED BY OPERATING ACTIVITIES		
Net comprehensive loss	**(3,525,771)**	(2,939,626)
Items not involving cash:		
Stock-based compensation	**169,977**	17,767
Salaries, benefits and consulting fees settled by issuance of performance and bonus shares	**249,581**	-
Amortization	**17,238**	14,805
Unrealized foreign exchange gain	**(7,220)**	(46,008)
Changes in non-cash working capital balances:		
Accounts payable and accrued liabilities	**(976,916)**	394,017
Amounts receivable	**2,165**	11,988
Prepaid expenses	**(433,461)**	(107,400)
Non-operating income:		
Interest income	**(5,611)**	(1,151)
Net cash used in operating activities	**(4,510,018)**	(2,655,608)
CASH FLOWS (USED IN) PROVIDED BY INVESTING ACTIVITIES		
Mineral property acquisition costs	**(65,847)**	(168,021)
Increase in reclamation deposit	**(8,302)**	-
Purchase of equipment	**(95,612)**	(8,955)
Interest income	**5,611**	1,151
Net cash used in by investing activities	**(164,150)**	(175,825)
CASH FLOWS PROVIDED BY (USED IN) FINANCING ACTIVITIES		
Proceeds from issuance of shares, net of issuance costs	**4,842,492**	1,145,956
Deferred financing costs	**-**	(750)
Net cash provided by financing activities	**4,842,492**	1,145,206
Change in cash for the period	**168,324**	(1,686,227)
Cash, beginning of period	**1,460,897**	1,716,318
Cash, end of period	**1,629,221**	30,091

Non-cash investing and financing activities:

- Cash flows (used in) provided by investing activities for the six months ended June 30, 2014 excludes $107,778 for a deposit related to the purchase of equipment which is recorded in accounts payable and accrued liabilities as at June 30, 2014.

- Cash flows provided by (used in) financing activities for the six months ended June 30, 2014 excludes $12,043 in share issuance costs that were settled through the issuance of warrants.

1. NATURE OF OPERATIONS

American Vanadium Corp. (the "Company"), incorporated under the *Canada Business Corporations Act*, is the Master Sales Agent in North America for the CellCube vanadium redox flow energy system ("CellCube"), produced by Gildemeister Energy Solutions, Cellstrom GmbH ("Gildemeister") of Germany. The CellCube is a commercially available vanadium flow battery capable of delivering long-duration energy storage for a broad range of applications, such as renewable energy integration and the reduction of demand charge tariffs levied by utilities.

The Company is integrating the CellCube sales opportunity with its Gibellini Property ("Gibellini"), a vanadium deposit located in Eureka County, Nevada and the development of a metallurgical process to create vanadium electrolyte for use in vanadium flow battery installations.

The address of the Company's principal place of business is Suite #910, 800 W. Pender Street, Vancouver, British Columbia, Canada, and its shares trade on the TSX-Venture Exchange (the "Exchange") under the symbol "AVC" and are quoted on the OTCQX under the symbol "AVCVF".

2. BASIS OF PRESENTATION AND CONTINUANCE OF OPERATIONS

Statement of compliance

These unaudited condensed consolidated interim financial statements, including comparative periods, have been prepared using accounting policies consistent with International Financial Reporting Standards ("IFRS") and in accordance with International Accounting Standard ("IAS") 34 "Interim Financial Reporting". These financial statements should be read in conjunction with the Company's audited consolidated financial statements for the year ended December 31, 2013.

Significant accounting policies and the applicable basis of measurement used in the preparation of these unaudited condensed consolidated interim financial statements are described in Note 3.

These consolidated financial statements were authorized by the Board of Directors on August 26, 2014.

Going concern

These consolidated financial statements have been prepared on the assumption that the Company will continue on a going concern basis. The Company has generally incurred net losses and negative operating cash flows since its incorporation, and the ability of the Company to continue as a going concern depends upon its ability to develop profitable operations and to continue to raise adequate financing. Management is marketing Gildemeister's CellCube vanadium redox flow batteries, which may provide some operating cash flow, but as this activity is still in a start-up phase, the Company is solely dependent upon its ability to raise funds in capital markets to meet its operating requirements and to finance the permitting and development of Gibellini.

There can be no assurance that the Company will be able to develop profitable operations or continue to raise additional funds, in which case the Company may be unable to meet its financial obligations. Should the Company be unable to generate funds from its assets and discharge its liabilities in the normal course of business, the net realizable value of its assets may be materially less than the amounts recorded on the balance sheets. The consolidated financial statements do not include adjustments to amounts and classifications of assets and liabilities that might be necessary should the Company be unable to continue operations.

The Company's ability to raise additional funds is dependent on favourable conditions in equity and alternative investment markets, which are volatile and subject to significant uncertainty. The Company will continue to identify alternative sources of financing, but anticipates reliance on equity markets in the near term. Based on these factors, there is a material uncertainty that casts significant doubt about the Company's ability to continue as a going concern.

As at June 30, 2014, the Company had a working capital surplus of $1,611,574 (December 31, 2013 - $142,816) and had $4,087,352 (December 31, 2013 - $2,351,073) in shareholders' equity.

3. SIGNIFICANT ACCOUNTING POLICIES

Except for the mandatory adoption of new IFRS, which are described under the heading "Adoption of new IFRS", these unaudited condensed consolidated interim financial statements have been prepared according to the same accounting policies and are subject to the same areas of judgment, measurement estimates and uncertainties as those disclosed in Note 3 of the Company's audited consolidated financial statements for the year ended December 31, 2013.

Basis of consolidation

These consolidated financial statements include the balances and results of the Company and those entities over which the Company exercises control. Control is achieved where the Company has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain the benefits from its operations.

These consolidated financial statements include the assets, liabilities, income and expenses of the Company and its wholly-owned U.S. subsidiary, American Vanadium US Inc. All intercompany transactions and balances have been eliminated on consolidation. Unless otherwise indicated, all amounts are reported in Canadian dollars.

Basis of measurement and presentation currency

The balances in these consolidated financial statements are prepared using the accrual basis of accounting and have been measured on a historical cost basis, except for financial instruments classified as financial instruments at fair value through profit or loss, which are stated at their fair value.

These financial statements are presented in Canadian dollars, which is also the functional currency of the Company and American Vanadium US Inc.

Adoption of new IFRS

The Company adopted the following new IFRS that became effective for fiscal years starting on January 1, 2014, which did not have a significant impact on the Company`s financial results:

IAS 32, "*Financial Instruments: Presentation*"

IAS 32 was amended to clarify requirements for offsetting financial assets and financial liabilities.

Future changes in accounting policies

Certain new accounting standards and interpretations have been published that are not mandatory for the current reporting period. These standards have been assessed to not have a significant impact on the Company's financial statements:

i. IFRS 2, *"Share-based Payment"*

IFRS 2 is amended to clarify the definition of vesting conditions. This accounting policy applies to share-based payment transactions for which the grant date is on or after July 1, 2014.

ii. IFRS 3, *"Business Combinations"*

IFRS 3 is amended to provide clarification related to (i) contingent consideration in a business combination and (ii) scope exception for joint arrangements. These amendments are effective for fiscal years beginning on or after July 1, 2014.

iii. IFRS 8, *"Operating Segments"*

IFRS 8 is amended to require (i) disclosure of judgments made by management in aggregating segments, and (ii) a reconciliation of segment assets to the entity's assets when segment assets are reported. These amendments are effective for fiscal years beginning on or after July 1, 2014.

iv. IFRS 9, *"Financial Instruments"*

The IASB intends to replace IAS 39 – "Financial Instruments: Recognition and Measurement" in its entirety with IFRS 9 in three main phases. IFRS 9 will be the new standard for the financial reporting of financial instruments that is principles-based and less complex than IAS 39. IFRS 9 requires that all financial assets be classified as subsequently measured at amortized cost or at fair value based on the Company's business model for managing financial assets and the contractual cash flow characteristics of the financial assets. Financial liabilities are classified as subsequently measured at amortized cost except for financial liabilities classified as at fair value through profit or loss, financial guarantees and certain other exceptions. IFRS 9 can currently be adopted voluntarily, but is mandatory for years beginning on or after January 1, 2018.

v. IFRS 16, *"Property, Plant and Equipment and IFRS 38, Intangible Assets"*

IFRS 16 and IFRS 38 are amended to classify how gross carrying amount and accumulated depreciation or amortization are treated where an entity uses the revaluation model. These amendments are effective for fiscal years beginning on or after July 1, 2014.

vi. IFRS 24, *"Related Party Transactions"*

IFRS 24 is amended to (i) revise definition of "related party" to include an entity that provides key management personnel services to the reporting entity or its parent, and (ii) clarify related disclosure requirements. These amendments are effective for fiscal years beginning on or after July 1, 2014.

4. PREPAID EXPENSES

Changes to the balance of prepaid expenses for the six months ended June 30, 2014 are as follows:

	Amount
	$
Balance, December 31, 2013	123,101
Net change in expense advances and rental and other deposits	(13,471)
Prepayment for CellCube testing	108,420
Advance for CellCube units	338,512
Balance, June 30, 2014	**556,562**

During the six months ended June 30, 2014, the Company paid $108,420 for testing that will be conducted on a CellCube unit at a U.S. Department of Energy's National Renewable Energy Laboratory facility located in Golden, Colorado. It is anticipated that this testing will commence in the second half of 2014, at which point the prepaid balance will be reduced for actual test costs incurred.

During the six months ended June 30, 2014, the Company made a $338,512 non-refundable advance towards CellCube units.

5. EQUIPMENT AND DEPOSITS ON EQUIPMENT

Changes to the Company's equipment balances are as follows:

	Field Equipment	**Office Equipment**	**Vehicles**	**Total**
	$	**$**	**$**	**$**
Cost				
Balance, December 31, 2013	41,655	62,086	41,118	144,859
Balance, June 30, 2014	**41,655**	**62,086**	**41,118**	**144,859**
Accumulated amortization				
Balance, December 31, 2013	38,317	19,517	28,626	86,460
Additions	3,338	9,192	4,708	17,238
Balance, June 30, 2014	**41,655**	**28,709**	**33,334**	**103,968**
Carrying value				
December 31, 2013	3,338	42,569	12,492	58,399
June 30, 2014	**-**	**33,377**	**7,784**	**41,161**

Deposits on equipment

In addition to the equipment balances above, as at June 30, 2014, the Company has paid or accrued a total of $287,571 for instalments towards CellCube units which will be held by the Company for demonstration purposes, with the possibility of future resale. Of this amount, $107,778 was accrued and $95,612 was paid during the six months ended June 30, 2014. This amount is classified as a deposit on equipment until such time as this equipment is operating, at which point it will be reclassified as equipment and will be subject to amortization.

6. MINERAL PROPERTIES

Summary of properties

a) Gibellini Property, Nevada, U.S.

In March 2006, the Company entered into a Mineral Lease Agreement to acquire 40 unpatented lode mining claims, paying US$60,000 upon the execution of the agreement. Pursuant to the terms of the agreement, the Company is required to pay a production royalty of 2.5% of the net smelter returns ("NSR") of all mineral substances produced from the claims, to a maximum of US$3,000,000, at which point the production royalty decreases to 2.0%. The Company is also required to pay US$30,000, quarterly, and such payments are credited against any future production royalties payable. As of June 30, 2014, the Company has paid a total of US$810,000 in these advance royalty payments, including US$60,000 paid during the six months ended June 30, 2014.

In December 2006, the Company entered into a Mineral Lease Agreement to acquire 12 unpatented lode mining claims, paying US$9,000 upon the execution of the agreement. Pursuant to the terms of the agreement the Company is required to pay an initial production royalty payment of US$30,000 within 60 days of production from the claims and a production royalty of 3.0% of NSR of all mineral substances produced from the claims. Also, the Company must pay an escalating series of annual payments, which will be credited against any future production royalties payable. As of June 30, 2014, the Company has paid a total of US$143,000 in these advance royalty payments, of which none were paid in the six months ended June 30, 2014; remaining payments are US$24,000, annually. Further the Company has the option to purchase these claims for a total purchase price of US$1,000,000.

In April 2007, the Company entered into a Mineral Lease Agreement to acquire 17 unpatented lode mining claims, paying US$10,000 upon the execution of the agreement. Pursuant to the terms of the agreement the Company was required to pay US$15,000 annually as a prepayment towards a production royalty of 2.5% of NSR of all mineral substances produced from the claims. In 2011, the Company acquired full ownership of these claims for a cash payment of US$50,000 and the issuance of 25,000 of its common shares valued at $33,750, in addition to US$60,000 in cumulative annual payments made prior to acquisition, thereby eliminating future advance royalty payments.

In 2011, the Company staked 180 unpatented lode claims and seven placer claims and in 2012 an additional 196 unpatented lode claims were staked.

In August and October 2011, the Company entered into two lease agreements for water rights to support permitting and potential development of the Gibellini Property. Combined initial consideration for these rights included cash payments of US$195,000 and 50,000 common shares in the Company valued at $67,500. The Company was also required to make combined annual rental payments of US$225,000, which were adjusted for the Consumer Price Index. During the year ended December 31, 2013, the Company paid US$231,090 in such rental payments. Additionally, during the year ended December 31, 2013, the Company cancelled one of the agreements because the other rights were considered sufficient. The Company paid US$100,000 and has accrued for two further payments of US$25,000, one of which is due in each of 2014 and 2015. As a result of the cancellation, $390,338 in related capitalized costs from previous periods was written-off from the mineral property balance and an expense of $531,033 was incurred for the year ended December 31, 2013, comprising the amount written-off, the cancellation payments paid or accrued, and legal fees incurred for the cancellation.

b) Del Rio Property, Nevada, U.S.

In 2010, the Company acquired 120 claims through the staking process. No additional claims have been subsequently acquired.

c) Hot Creek Property, Nevada, U.S.

In 2010, the Company acquired 18 claims through the staking process. No additional claims have been subsequently acquired.

Acquisition costs

As at June 30, 2014 and prior periods, the carrying values of mineral properties were comprised solely of capitalized acquisition costs for mineral and related water rights. Changes to these carrying values are as follows:

	Gibellini	Del Rio	Hot Creek	Total
	$	$	$	$
As at December 31, 2013	1,868,430	39,683	9,171	1,917,284
Additions	65,847	-	-	65,847
As at June 30, 2014	**1,934,277**	**39,683**	**9,171**	**1,983,131**

The Company has capitalized, rather than expensed, payments for mineral and related water rights on the basis that holding title to the related properties and water rights allows the Company to develop these properties in the future. Acquiring and maintaining title to mineral properties involves certain inherent risks due to difficulties in determining the validity of certain claims as well as the potential for problems arising from the frequently ambiguous conveyance history characteristic of many mineral properties.

Exploration and evaluation expenses

During the six months ended June 30, 2014, exploration and evaluation expenses incurred on the Company's mineral properties were as follows:

	Gibellini	Del Rio	Hot Creek	Total
	$	$	$	$
Environmental permitting	549,840	-	-	549,840
Engineering, procurement and construction management	128,484	-	-	128,484
Metallurgy	296,228	-	-	296,228
General	164,775	-	-	164,775
Engineering	87,443	-	-	87,443
Labour and benefits	60,312	-	-	60,312
Leach pad design	60,895	-	-	60,895
Satellite office	52,116	-	-	52,116
Geotechnical	15,485	-	-	15,485
Drilling and trenching	1,825	-	-	1,825
	1,417,403	**-**	**-**	**1,417,403**

During the six months ended June 30, 2013, exploration and evaluation expenses incurred on the Company's mineral properties were as follows:

	Gibellini	Del Rio	Hot Creek	Total
	$	$	$	$
Environmental permitting	487,729	-	-	487,729
Engineering, procurement and construction management	610,498	-	-	610,498
Metallurgy	536,521	-	-	536,521
General	105,728	640	-	106,368
Power	51,235	-	-	51,235
Engineering	49,348	-	-	49,348
Geotechnical	32,012	-	-	32,012
Feasibility	24	-	-	24
	1,873,095	**640**	**-**	**1,873,735**

7. SHAREHOLDERS' EQUITY

Share capital

Authorized

Unlimited number of common voting shares with no par value.

Issued and outstanding

	Number of Common Shares	Amount
		$
Outstanding, January 1, 2013	33,524,250	17,461,187
Issued through private placements, net of share issuance costs	13,267,698	6,447,200
Issued on exercise of stock options	53,250	56,151
Issuance of bonus shares and vesting of performance shares	325,000	133,000
Outstanding, December 31, 2013	47,170,198	24,097,538
Issued through private placements, net of share issuance costs	12,500,000	4,822,169
Issuance of bonus shares and vesting of performance shares	260,000	106,675
Issued on exercise of warrants	13,800	9,674
Outstanding, June 30, 2014	**59,943,998**	**29,036,056**

Private placements

On April 11, 2013, the Company completed a non-brokered private placement of 1,607,698 common share units at a price of $0.70 per unit for gross proceeds of $1,125,388. Each unit consists of one common share and one-half of one common share purchase warrant. Each whole common share purchase warrant entitles the holder to purchase an additional common share at a price of $1.20 until April 11, 2014. The value of these units has been bifurcated between common shares at a value of $0.58 per share and warrants at a value of $0.12 per one-half warrant. An additional 840 agent's warrants were issued as part of this private placement with a fair value of $93. Each agent's warrant entitles the holder to purchase one common share at a price of $1.20 per common share until April 11, 2014. Transaction costs for the private placement, which include cash commissions, and legal and other fees, totalled $14,075.

On September 30, 2013, the Company completed the first of two tranches of a non-brokered private placement. Under this tranche, the Company issued 8,130,000 common share units at a price of $0.50 per unit for gross proceeds of $4,065,000. Each unit consists of one common share, one-half of one common share purchase warrant exercisable at $0.60 and one-half of one common share purchase warrant exercisable at $0.80. Each whole $0.60 warrant entitles the holder to purchase an additional common share at a price of $0.60 until March 30, 2014, which was subsequently extended until September 30, 2014, and each whole $0.80 warrant entitles the holder to purchase an additional common share at a price of $0.80 until September 30, 2015. The value of these units has been bifurcated between common shares at a value of $0.49 per share with the residual value of $0.01 being attributed to the warrants. Agents for the private placement received 23,100 of the $0.60 warrants and 23,100 of the $0.80 warrants with a combined fair value of $3,628. Transaction costs for this tranche, which include warrant and cash commissions, and legal and other fees, totalled $154,663.

On November 4, 2013, the Company completed the second tranche of the September 30, 2013 non-brokered private placement. Under the second tranche, the Company issued 3,530,000 common share units at a price of $0.50 per unit for gross proceeds of $1,765,000. Each unit consists of one common share, one-half of one common share purchase warrant exercisable at $0.60 and one-half of one common share purchase warrant exercisable at $0.80. Each whole $0.60 warrant entitles the holder to purchase an additional common share at a price of $0.60 until May 4, 2014, which was subsequently extended until November 4, 2014, and each whole $0.80 warrant entitles the holder to purchase an additional common share at a price of $0.80 until November 4, 2015. The full value of these units is attributed to the value of the common shares. Agents for the private placement received 16,800 of the $0.60 warrants and 16,800 of the $0.80 warrants with a combined fair value of $3,104. Transaction costs for this tranche, which include cash commissions, and legal and other fees, totalled $59,400.

On March 6, 2014, the Company completed the first tranche of a non-brokered private placement of 10,000,000 common share units at a price of $0.40 per unit for gross proceeds of $4,000,000. Each unit consists of one common share and one-half of one common share purchase warrant. Each whole common share purchase warrant entitles the holder to purchase an additional common share at a price of $0.60 until March 6, 2016. The full value of these units is attributed to the value of the common shares. Transaction costs for this tranche, which include legal and other fees, totalled $90,580.

On May 8, 2014, the Company completed the second tranche of the private placement for an additional 2,500,000 common share units at a price of $0.40 per unit for gross proceeds of $1,000,000. Each unit consists of one common share and one-half of one common share purchase warrant. Each whole common share purchase warrant for the second tranche entitles the holder to purchase an additional common share at a price of $0.60 until May 8, 2016. The full value of these units is attributed to the value of the common shares. An additional 93,375 warrants with a fair value of $12,043 were granted to agents for the second tranche. Transaction costs for this tranche, which include the value of agents’ warrants, legal fees, and exchange and other fees, totalled $87,251.

Restricted share units (“RSUs”)

The Company has an RSU plan, adopted in fiscal 2013, allowing the Board of Directors of the Company, at its discretion and in accordance with the requirements of the Exchange, to grant to directors, officers, employees and consultants to the Company, non-transferable RSUs. Upon meeting certain operational milestones or other vesting conditions, the RSUs will be exchanged for common shares in the Company for the recipient’s benefit. RSUs will expire three years from grant if performance-based vesting conditions are not met.

The maximum number of RSUs that can be issued under the RSU plan is 3,500,000 and the combined maximum number of common shares issuable under the RSU and stock options plans shall not exceed a rolling 10% of the Company’s issued and outstanding number of common shares. The Company may grant, subject to Exchange approval, compensatory shares or RSUs outside the RSU plan, which may have different characteristics than those permitted by the plan.

During the year ended December 31, 2013, the Company issued 200,000 RSUs to an employee of the Company. These RSUs will vest in tranches as certain environmental permitting and mine development milestones for Gibellini are achieved. No RSUs have vested as at June 30, 2014 no expense has been recognized for the potential achievement of vesting conditions.

Bonus and performance shares

Subject to shareholder or regulatory approvals, the Company may, outside the RSU plan, grant bonus or performance shares to employees or consultants. These shares may be issued unconditionally ("Bonus Shares"), or may be issued subject to meeting certain performance or retention criteria ("Performance Shares"). For Bonus Shares, an expense is recorded on their grant date equivalent to the prevailing fair market value of the shares. For Performance Shares, an expense is recorded for the grant date fair market value those shares expected to be earned, which is recognized rateably over their anticipated vesting period. The expense recognized for Performance Shares and Bonus Shares results in a corresponding increase to the Company's equity reserves, which is then reclassified to share capital on actual issuance of the related earned shares.

Changes to the balance of unvested Performance Shares are as follows:

	Bonus Shares	**Performance Shares**	
	Number of Shares	**Number of Unvested Shares**	**Number of Vested Shares**
Outstanding, January 1, 2013	-	725,000	-
Bonus and Performance Share awards granted	-	560,000	-
Performance Shares vested	-	(325,000)	325,000
Shares issued	-	-	(325,000)
Outstanding, December 31, 2013	-	960,000	-
Bonus and Performance Share awards granted	150,000	-	-
Performance Shares vested	-	(310,000)	310,000
Shares issued	(75,000)		(185,000)
Outstanding, June 30, 2014	**75,000**[1]	**650,000**[2]	**125,000**[1]

[1] As at June 30, 2014, there are 75,000 Bonus Shares and 125,000 Performance Shares which are issuable to certain employees of the Company and are not subject to any further performance or retention conditions, but whose release is scheduled throughout 2014. Equity reserves as at June 30, 2014 includes $97,500 related to these amounts.

[2] As at June 30, 2014, there are 650,000 Performance Shares outstanding whose release is subject to certain performance or retention conditions being fulfilled. It is expected that all such conditions will be met, and the Company has recognized an expense of $45,406 related to these shares for the six months ended June 30, 2014, with the same amount being recorded in equity reserves as at June 30, 2014.

The combined expense recognized for Bonus Shares and Performance Shares during the six months ended June 30, 2014 is $249,581, of which $222,281 is recorded in salaries and benefits expense and $27,300 in consulting expense. Corresponding amounts of $142,906 and 106,675 been recorded in equity reserves for unissued shares and in share capital for shares issued, respectively.

The performance milestones for the issuance of the Performance Shares outstanding as at June 30, 2014 are as follows:

Performance Milestone	**Number of Shares Issuable**
Earlier of December 31, 2014 and project permitting for the Gibellini property.	100,000
Earlier of December 31, 2015 and completion of detailed engineering and revised feasibility study for the Gibellini property.	75,000
Earlier of December 31, 2015 and completion of the leaching pad for the Gibellini property.	75,000
Earlier of December 31, 2016 and commencement of heap leaching process on the Gibellini property.	100,000
Earlier of December 31, 2016 and economic production on the Gibellini property.	75,000
Earlier of December 31, 2017 and economic production on the Gibellini property.	125,000
On employment retention to December 31, 2017	100,000
Total	650,000

Warrants

Changes to the balance of warrants outstanding are as follows:

	Number of Warrants	**Weighted Average Exercise Price**	**Weighted Average Fair Value**	**Weighted Average Remaining Life**
		$	**$**	**(Years)**
Outstanding, January 1, 2013	3,780,087	1.20	0.21	
Warrants expired	(2,167,160)	1.35	0.26	
Warrants issued as part of common share units	12,463,848	0.73	0.02	
Warrants issued as agents, and finders' fees	80,640	0.71	0.08	
Outstanding, December 31, 2013	14,157,415	0.76	0.04	
Warrants issued as part of common share units	6,250,000	0.60	-	
Warrants issued as agents' and finders' fees	93,375	0.60	0.13	
Warrants exercised	(13,800)	0.60	0.10	
Warrants expired	(2,443,715)	1.06	0.17	
Outstanding, June 30, 2014	**18,043,275**	**0.67**	**0.01**	**1.1**

The fair value of warrants included in common share units is determined as the excess in the value of the unit over the market price of the Company's common shares on the date the units are issued.

The fair value of agents' and finders' warrants issued on a stand-alone basis is determined using the Black-Scholes option-pricing model. Inputs to the Black-Sholes option-pricing for these warrants are as follows:

	For the six months ended June 30, 2014	For the year ended December 31, 2013
Risk-free interest rate	**1.07%**	1.55%
Dividend yield	**0%**	0%
Expected stock price volatility	**64.61%**	73.06%
Expected life	**1.15 years**	1 year

The following warrants were outstanding and exercisable as at June 30, 2014:

Expiry date	**Exercise Price**	**Number of Warrants Outstanding and Exercisable**
	$	
September 30, 2014	0.60	4,065,000
November 4, 2014	0.60	1,765,000
September 30, 2015	0.80	4,088,100
November 4, 2015	0.80	1,781,800
March 6, 2016	0.60	5,000,000
May 8, 2016	0.60	1,343,375
		18,043,275

Stock options

The Company adopted an incentive stock option plan which provides that the Board of Directors of the Company may from time to time, in its discretion, and in accordance with the requirements of the Exchange, grant to directors, officers, employees and technical consultants to the Company, non-transferable options to purchase common shares, provided that the number of common shares reserved for issuance will not exceed 10% of the issued and outstanding common shares. Such options will be exercisable for a period of up to five years from the date of grant. Vesting terms are determined by the Board of Directors at the time of grant.

Stock option transactions and the number of stock options outstanding are summarized as follows:

	Number of Stock Options	**Weighted Average Exercise Price**	**Weighted Average Fair Value**	**Weighted Average Remaining Life**
		$	**$**	**(Years)**
Outstanding, January 1, 2013	2,555,500	0.84	0.58	
Options granted	1,575,000	0.63	0.29	
Options exercised	(53,250)	0.70	0.36	
Options cancelled or forfeited	(188,000)	1.22	0.82	
Outstanding, December 31, 2013	3,889,250	0.73	0.45	2.77
Options granted	490,000	0.60	0.25	
June 30, 2014	4,379,250	0.71	0.43	2.88

The fair values of the stock options granted during were estimated using the Black-Scholes option pricing model. The weighted average assumptions used in the pricing model for these options are as follows:

	For the six months ended June 30, 2014	For the year ended December 31, 2013
Risk-free interest rate	**1.16%**	1.26%
Dividend yield	**0%**	0%
Expected stock price volatility	**82.21%**	79.60%
Expected forfeiture rate	**-**	18.79%
Expected life	**2.80 years**	2.93 years

The following incentive stock options were outstanding and exercisable at June 30, 2014:

Expiry date	**Exercise Price**	**Number of Options Outstanding**	**Number of Options Exercisable**
	$		
July 6, 2014	0.60	50,000*	50,000
July 6, 2014	0.70	75,000*	75,000
July 6, 2014	0.74	50,000*	50,000
July 30, 2014	0.70	21,750*	21,750
July 30, 2014	1.34	100,000*	100,000
July 30, 2014	1.53	300,000*	300,000
January 21, 2015	0.35	687,500	687,500
April 1, 2015	0.75	40,000	40,000
August 18, 2015	0.75	50,000	50,000
November 2, 2015	0.70	275,000	275,000
December 13, 2015	1.00	10,000	10,000
December 29, 2015	1.05	15,000	15,000
December 31, 2015	1.14	50,000	50,000
February 7, 2016	1.56	100,000	100,000
March 7, 2016	1.50	25,000	25,000
May 26, 2016	0.60	100,000	-
August 2, 2016	0.60	50,000	50,000
February 6, 2017	0.77	65,000	65,000
April 3, 2017	0.70	100,000	100,000
April 12, 2017	0.74	50,000	50,000
June 15, 2017	0.74	250,000	250,000
January 7, 2018	0.90	30,000	30,000
August 26, 2018	0.70	310,000	260,000
November 4, 2018	0.60	1,145,000	995,000
December 2, 2018	0.60	40,000	10,000
April 29, 2019	0.60	110,000	27,500
May 27, 2019	0.60	30,000	-
May 30, 2019	0.60	250,000	250,000
		4,379,250	**3,936,750**

* Subsequent to June 30, 2014, these options expired, unexercised.

8. RELATED PARTY TRANSACTIONS

During the six months ended June 30, 2014, a $39,000 (2013 - $39,000) expense was recorded for office facilities, corporate and administrative services provided by a Ionic Management Corp. ("Ionic"), a company jointly controlled by Brian Bayley, a director of the Company. Additionally, $41,000, recorded as share issuance costs, was paid to Ionic for fees related to a private placement of common shares in the six months ended June 30, 2014 (2013 - $nil). As at June 30, 2014, $8,295 is included in accounts payable and accrued liabilities (December 31, 2013 - $8,891) for amounts owing to Ionic.

During the six months ended June 30, 2014, a $60,000 consulting expense (2013 - $90,000) was recorded for services provided by Cansource International Ltd., a company jointly controlled by a Ron MacDonald, a former director of the Company who resigned during the period. Included in accounts payable and accrued liabilities at June 30, 2014 is $nil (December 31, 2013 – credit balance of $15,750) with this related company.

Included in prepaid expenses as at June 30, 2014 is $10,000 (December 31, 2013 - $10,000) advanced to Bill Radvak, the Chief Executive Officer of the Company for corporate expenses to be incurred on the Company's behalf. Included in accounts payable and accrued liabilities as at June 30, 2014 is $22,050 (December 31, 2013 - $8,271) owing to this officer for travel expense claims.

Included in accounts payable and accrued liabilities as at June 30, 2014 is $13,487 (December 31, 2013 - $15,200) owing to Mike Doyle, the Executive VP, Operations; and $nil (December 31, 2013 - $4,057) owing to Ron Espell, the VP, Environmental.

These transactions were in the normal course of operations and were measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties.

9. SEGMENTED INFORMATION

The Company has one reportable operating segment, being the acquisition and exploration of mineral properties. Geographical information is as follows:

	Net Comprehensive Loss	
	For the Six Months Ended June 30, 2014	For the Six Months Ended June 30, 2013
	$	$
Canada	**1,502,878**	846,372
United States	**2,022,893**	2,093,254
Total net comprehensive loss	**3,525,771**	2,939,626

	Non-current, Non-financial Assets as at	
	June 30 2014	December 31 2013
	$	$
Canada	**25,571**	31,929
United States	**2,286,292**	2,027,935
Total assets non-current, non-financial assets	**2,311,863**	2,059,864

10. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

As at June 30, 2014, the Company's financial instruments are comprised of cash, amounts receivable, reclamation deposits and accounts payable and accrued liabilities. With the exception of cash, all financial instruments held by the Company are measured at amortized cost. The fair values of these financial instruments approximate their carrying value due to their short-term maturities. Fair values of financial instruments are classified in a fair value hierarchy based on the inputs used to determine fair values. The levels of the fair value hierarchy are as follows:

Level 1 – Unadjusted quoted prices in active markets for identical assets or liabilities;

Level 2 – Inputs other than quoted prices that are observable for the asset or liability either directly or indirectly; and

Level 3 – Inputs that are not based on observable market data.

Financial instruments measured at fair value on the balance sheet as at June 30, 2014 are summarized in levels of fair value hierarchy as follows:

	Level 1	Level 2	Level 3
	$	$	$
Cash	1,629,221	-	-

The Company's financial instruments are exposed to certain financial risks, including currency risk, credit risk, liquidity risk and interest rate risk.

Currency risk

A portion of the Company's expenses are incurred in United States dollars and financial instrument balances are held in this currency. A significant change in the currency exchange rates between the Canadian dollar relative to the United States dollar could have a negative effect on the Company's results of operations, financial position or cash flows.

As at June 30, 2014, the Company held $552,889, in net financial assets denominated in United States dollars. A prolonged $0.10 increase (decrease) in the value of the Canadian dollar compared with the United States dollar would result in a $55,289 foreign exchange loss (gain) based on United States dollar denominated net financial assets as at June 30, 2014. The Company has not hedged its exposure to currency fluctuations and, as at June 30, 2014

Credit risk

Credit risk is the risk of an unexpected loss if a customer or third party to a financial instrument fails to meet its contractual obligations. The Company's credit risk is primarily attributable to its cash. The Company limits exposure to credit risk by maintaining its cash with large financial institutions. The Company does not have cash that is invested in asset backed commercial paper.

Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company ensures there is sufficient capital in order to meet short term business requirements, after taking into account cash flows from operations and the Company's holdings of cash. The Company believes that these sources will be sufficient to cover the likely short term cash requirements and further funding will be required to meet long-term requirements.

Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. As the Company's cash is currently held in short-term interest bearing accounts which pay relatively low rates of interest, the Company considers the interest rate risk to be limited.

11. CAPITAL MANAGEMENT

The Company manages its capital structure, which comprises the components of shareholders' equity, and makes adjustments to it, based on the funds available to the Company, in order to support the acquisition, exploration and development of resource properties. The Board of Directors does not establish quantitative return on capital criteria for management, but rather relies on the expertise of the Company's management to sustain future development of the business.

The properties in which the Company currently has an interest are in the exploration stage; as such the Company is dependent upon external financings to fund activities. In order to carry out planned exploration and pay for administrative costs, the Company will spend its existing working capital and will attempt to raise additional funds as needed.

Management reviews its capital management approach on an ongoing basis and believes that this approach, given the relative size of the Company, is reasonable.

There were no changes in the Company's approach to capital management during the six months ended June 30, 2014. The Company is not subject to externally imposed capital requirements.

12. LOSS PER SHARE

The numerators and denominators of basic and diluted loss per share for the three and six months ended June 30, 2014 and 2013 are as follows:

	Three Months Ended		**Six Months Ended**	
	June 30 2013	June 30 2013	**June 30 2013**	June 30 2013
Net loss - numerator	**$1,789,919**	$1,512,081	**$3,525,771**	$2,939,626
Basic and diluted weighted average number of common shares outstanding - denominator	**58,871,685**	34,990,861	**54,473,888**	34,283,083
Basic and diluted loss per share	**$0.03**	$0.04	**$0.06**	$0.09

The Company incurred net losses for all periods reported, so no dilutive impact of in-the-money stock options and warrants has been included in the calculation of diluted weighted average number of common shares outstanding.

13. COMMITMENTS AND CONTINGENCIES

The Company is committed to the following expenditures as at June 30, 2014:

Nature of payment	Remainder of 2014	2015	2016	2017	2018
Mineral rights[1]	US$84,000	US$144,000	US$144,000	US$144,000	US$144,000
Water rights[2]	US$150,000	US$150,000	US$125,000	US$125,000	US$125,000
Equipment[3]	EUR478,537	EUR180,273			
Office lease	Cdn$70,408	Cdn$140,816	Cdn$140,816	-	-

1. As described in Note 5, the Company makes NSR prepayments in order to acquire and maintain mineral rights to its properties. To maintain certain of its properties in good standing, the Company is required to continue making these payments. While not contractually committed to further payments, the Company considers these to be constructive commitments.
2. As described in Note 5, the Company makes annual rental payments to maintain water rights for its properties. While not contractually committed to further payments, the Company considers these to be constructive commitments.
3. As described in Note 4, the Company made instalment payments towards the purchase of equipment. Remaining instalments totalling of 658,810 Euros are expected in 2014. It is anticipated that the Company will receive a total of US$559,941 in grants in 2014 – 2016 to offset some of these instalment payments, but this amount has not been netted against committed payments.